Whitestone REIT
Form 10-Q
August 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number 001-34855
WHITESTONE REIT
(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	76-0594970 (I.R.S. Employer Identification No.)
2600 South Gessner, Suite 500 Houston, Texas (Address of Principal Executive Offices)	77063 (Zip Code)

(713) 827-9595
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ýYes ¨No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ýYes ¨No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ý
Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨Yes ý No

As of August 2, 2013, there were 17,195,185 common shares of beneficial interest, $0.001 par value per share, outstanding.

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
Whitestone REIT and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Real estate assets, at cost		
Property	$481,939	$409,669
Accumulated depreciation	(59,569)	(53,920)
Total real estate assets	422,370	355,749
Cash and cash equivalents	6,020	6,544
Marketable securities	912	1,403
Escrows and acquisition deposits	5,396	6,672
Accrued rents and accounts receivable, net of allowance for doubtful accounts	8,850	7,947
Related party receivable	—	652
Unamortized lease commissions and loan costs	5,079	4,160
Prepaid expenses and other assets	2,864	2,244
Total assets	$451,491	$385,371
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable	$266,401	$190,608
Accounts payable and accrued expenses	10,489	13,824
Tenants' security deposits	3,348	3,024
Dividends and distributions payable	5,028	5,028
Total liabilities	285,266	212,484
Commitments and contingencies:	—	—
Equity:		
Preferred shares, $0.001 par value per share; 50,000,000 shares authorized; none issued and outstanding as of June 30, 2013 and December 31, 2012	—	—
Common shares, $0.001 par value per share; 400,000,000 shares authorized; 17,052,980 and 16,943,098 issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	17	16
Additional paid-in capital	225,916	224,237
Accumulated other comprehensive gain (loss)	290	(392)
Accumulated deficit	(65,555)	(57,830)
Total Whitestone REIT shareholders' equity	160,668	166,031
Noncontrolling interest in subsidiary	5,557	6,856
Total equity	166,225	172,887
Total liabilities and equity	$451,491	$385,371

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Property revenues				
Rental revenues	$11,812	$8,523	$22,813	$16,651
Other revenues	2,983	2,464	5,851	4,762
Total property revenues	14,795	10,987	28,664	21,413
Property expenses				
Property operation and maintenance	3,348	2,759	6,413	5,111
Real estate taxes	2,012	1,503	3,810	2,813
Total property expenses	5,360	4,262	10,223	7,924
Other expenses (income)				
General and administrative	2,516	1,863	4,960	3,504
Depreciation and amortization	3,260	2,290	6,333	4,573
Interest expense	2,613	2,107	5,062	4,080
Interest, dividend and other investment income	(69)	(83)	(88)	(153)
Total other expense	8,320	6,177	16,267	12,004
Income before loss on sale or disposal of assets and income taxes	1,115	548	2,174	1,485
Provision for income taxes	(72)	(70)	(137)	(135)
Loss on sale or disposal of assets	(40)	(16)	(48)	(28)
Net income	1,003	462	1,989	1,322
Less: Net income attributable to noncontrolling interests	33	31	70	98
Net income attributable to Whitestone REIT	$970	$431	$1,919	$1,224

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Basic and Diluted Earnings Per Share:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.06	$0.04	$0.11	$0.10
Weighted average number of common shares outstanding:				
Basic	16,891	11,746	16,855	11,685
Diluted	17,111	11,754	17,073	11,696
Distributions declared per common share / OP unit	$0.2850	$0.2850	$0.5700	$0.5700
Consolidated Statements of Comprehensive Income				
Net income	$1,003	$462	$1,989	$1,322
Other comprehensive gain (loss)				
Unrealized gain on cash flow hedging activities	761	—	493	—
Unrealized gain (loss) on available-for-sale marketable securities	(88)	33	215	799
Comprehensive income	1,676	495	2,697	2,121
Less: Comprehensive income attributable to noncontrolling interests	57	30	95	157
Comprehensive income attributable to Whitestone REIT	$1,619	$465	$2,602	$1,964

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)
(in thousands)

	Common Shares Shares	Shares Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Gain (Loss)	Total Shareholders' Equity	Noncontrolling interests Units	Noncontrolling interests Dollars	Total Equity
Balance, December 31, 2012	16,943	$16	$224,237	$ (57,830)	$ (392)	$ 166,031	685	$6,856	$172,887
Exchange of noncontrolling interest OP units for common shares	106	1	1,056	—	(1)	1,056	(106)	(1,056)	—
Exchange offer costs	—	—	(23)	—	—	(23)	—	—	(23)
Issuance of shares under dividend reinvestment plan	3	—	47	—	—	47	—	—	47
Share-based compensation	1	—	599	—	—	599	—	—	599
Distributions	—	—	—	(9,644)	—	(9,644)	—	(338)	(9,982)
Unrealized gain on change in value of cash flow hedge	—	—	—	—	476	476	—	17	493
Unrealized gain on change in fair value of available-for-sale marketable securities	—	—	—	—	207	207	—	8	215
Net income	—	—	—	1,919	—	1,919	—	70	1,989
Balance, June 30, 2013	17,053	$17	$225,916	$ (65,555)	$ 290	$ 160,668	579	$5,557	$166,225

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$1,989	$1,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,333	4,573
Amortization of deferred loan costs	554	634
Amortization of notes payable discount	299	—
Gain on sale of marketable securities	(41)	(32)
Loss on sale or disposal of assets	48	28
Bad debt expense	715	358
Share-based compensation	667	266
Changes in operating assets and liabilities:		
Escrows and acquisition deposits	1,619	1,229
Accrued rents and accounts receivable	(966)	(1,064)
Unamortized lease commissions	(517)	(600)
Prepaid expenses and other assets	246	298
Accounts payable and accrued expenses	(2,990)	(1,917)
Tenants' security deposits	324	161
Net cash provided by operating activities	8,280	5,256
Cash flows from investing activities:		
Acquisitions of real estate	(58,403)	(6,400)
Additions to real estate	(2,476)	(6,465)
Investments in marketable securities	—	(750)
Proceeds from sales of marketable securities	747	3,926
Net cash used in investing activities	(60,132)	(9,689)
Cash flows from financing activities:		
Distributions paid to common shareholders	(9,639)	(6,684)
Distributions paid to OP unit holders	(363)	(559)
Payments of exchange offer costs	(23)	(306)
Proceeds from notes payable	20,200	13,156
Proceeds from revolving credit facility, net	58,400	—
Repayments of notes payable	(15,844)	(1,819)
Payments of loan origination costs	(1,403)	(1,187)
Net cash provided by financing activities	51,328	2,601
Net decrease in cash and cash equivalents	(524)	(1,832)
Cash and cash equivalents at beginning of period	6,544	5,695
Cash and cash equivalents at end of period	$6,020	$3,863

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2013	2012
Supplemental disclosure of cash flow information:		
Cash paid for interest	$4,597	$3,375
Cash paid for taxes	$237	$225
Non cash investing and financing activities:		
Disposal of fully depreciated real estate	$185	$523
Financed insurance premiums	$883	$780
Value of shares issued under dividend reinvestment plan	$47	$45
Debt assumed with acquisitions of real estate	$11,100	$—
Interest supplement assumed with acquisition of real estate	$932	$—
Accrued offering costs	$13	$28
Value of common shares exchanged for OP units	$1,056	$6,224
Change in fair value of available-for-sale securities	$215	$799
Change in fair value of cash flow hedge	$493	$—

See accompanying notes to Consolidated Financial Statements

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WHITESTONE REIT AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013
(Unaudited)

The use of the words “we,” “us,” “our,” “Company” or “Whitestone” refers to Whitestone REIT and our consolidated subsidiaries, except where the context otherwise requires.

1. INTERIM FINANCIAL STATEMENTS

The consolidated financial statements included in this report are unaudited; however, amounts presented in the consolidated balance sheet as of December 31, 2012 are derived from our audited consolidated financial statements as of that date. The unaudited financial statements as of June 30, 2013 have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information on a basis consistent with the annual audited consolidated financial statements and with the instructions to Form 10-Q.

The consolidated financial statements presented herein reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position of Whitestone and our subsidiaries as of June 30, 2013, and the results of operations for the three and six month periods ended June 30, 2013 and 2012, the consolidated statements of changes in equity for the six month period ended June 30, 2013 and cash flows for the six month periods ended June 30, 2013 and 2012. All of these adjustments are of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results expected for a full year. The statements should be read in conjunction with the audited consolidated financial statements and the notes thereto which are included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Business. Whitestone was formed as a real estate investment trust ("REIT"), pursuant to the Texas Real Estate Investment Trust Act on August 20, 1998. In July 2004, we changed our state of organization from Texas to Maryland pursuant to a merger where we merged directly with and into a Maryland REIT formed for the sole purpose of the reorganization and the conversion of each of our outstanding common shares of beneficial interest of the Texas entity into 1.42857 common shares of beneficial interest of the Maryland entity. We serve as the general partner of Whitestone REIT Operating Partnership, L.P. (the “Operating Partnership”), which was formed on December 31, 1998 as a Delaware limited partnership. We currently conduct substantially all of our operations and activities through the Operating Partnership. As the general partner of the Operating Partnership, we have the exclusive power to manage and conduct the business of the Operating Partnership, subject to certain customary exceptions. As of June 30, 2013 and December 31, 2012, Whitestone owned and operated 55 and 51 commercial properties, respectively, in and around Houston, Dallas, San Antonio, Chicago and Phoenix.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation. We are the sole general partner of the Operating Partnership and possess full legal control and authority over the operations of the Operating Partnership. As of June 30, 2013 and December 31, 2012, we owned a majority of the partnership interests in the Operating Partnership. Consequently, the accompanying consolidated financial statements include the accounts of the Operating Partnership. All significant inter-company balances have been eliminated. Noncontrolling interests in the accompanying consolidated financial statements represents the share of equity and earnings of the Operating Partnership allocable to holders of partnership interests other than us. Net income or loss is allocated to noncontrolling interests based on the weighted average percentage ownership of the Operating Partnership during the period. Issuance of additional common shares of beneficial interest in Whitestone (the "common shares") and units of limited partnership interest in the Operating Partnership that are convertible into cash or, at our option, common shares on a one-for-one basis (the “OP units”) changes the ownership interests of both the noncontrolling interests and Whitestone.

Basis of Accounting. Our financial records are maintained on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred.

Use of Estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates that we use include the estimated fair values of properties acquired, the estimated useful lives for depreciable and amortizable assets and costs, the estimated allowance for doubtful accounts, the estimated fair value of interest rate swaps and the estimates supporting our impairment analysis for the carrying values of our real estate assets. Actual results could differ from those estimates.

Reclassifications. We have reclassified certain prior period amounts in the accompanying consolidated financial statements in order to be consistent with the current period presentation. These reclassifications had no effect on net income, total assets, total liabilities or equity. During 2012, we reclassified the amortization of our loan fees, previously classified as depreciation and amortization expenses, to interest expense for all periods presented. As of June 27, 2012, prior period Class A and Class B common shares have been consolidated into a single class of common shares. See Note 10 for additional discussion related to the reclassification of our Class A and Class B common shares.

Marketable Securities. We classify our existing marketable equity securities as available-for-sale in accordance with the Financial Accounting Standards Board's ("FASB") Investments-Debt and Equity Securities guidance. These securities are carried at fair value with unrealized gains and losses reported in equity as a component of accumulated other comprehensive income or loss. The fair value of the marketable securities is determined using Level 1 inputs under FASB Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures." Level 1 inputs represent quoted prices available in an active market for identical investments as of the reporting date. Gains and losses on securities sold are based on the specific identification method, and are reported as a component of interest, dividend and other investment income. We recognized gains on the sale of marketable securities of approximately \$41,000 and \$31,000 for the three months ended June 30, 2013 and 2012, respectively, and \$41,000 and \$32,000 for the six months ended June 30, 2013 and 2012, respectively. As of June 30, 2013, our investment in available-for-sale marketable securities was approximately \$912,000, which includes an aggregate unrealized loss of approximately \$194,000.

Derivative Instruments and Hedging Activities. On March 8, 2013, we, through our Operating Partnership, entered into an interest rate swap with U.S. Bank National Association that fixed the LIBOR portion of our \$50 million term loan under our unsecured credit facility at 0.84%. See Note 6 for additional information regarding our credit facility. The swap will begin on January 7, 2014 and will mature on February 3, 2017. We have designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value to be recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The ineffective portion of the change in fair value, if any, will be recognized directly in earnings. As of June 30, 2013, the fair value of our cash flow hedge was \$0.3 million. For the three and six months ended June 30, 2013, we recognized \$582,000 and \$325,000 as other comprehensive gains, respectively. For the three and six months ended June 30, 2013, we did not recognize any portion of the cash flow hedge into earnings because we are not required to make cash settlements until 2014.

On August 8, 2012, as part of our acquisition of Paradise Plaza (see Note 14), we assumed a \$9.2 million variable rate note (see Note 6). The note included an interest rate swap that had a fixed interest rate of 5.72%. We have designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The ineffective portion of the change in fair value, if any, is recognized directly in earnings. As of June 30, 2013, the fair value of our cash flow hedge was \$1.4 million. For the three and six months ended June 30, 2013, we recognized \$179,000 and \$168,000 as other comprehensive gains, respectively. For the three and six months ended June 30, 2013, we recognized \$88,000 and \$176,000 as interest expense, respectively.

As of June 30, 2013, we consider our cash flow hedges to be highly effective. Our cash flow hedges are determined using Level 2 inputs under ASC 820. Level 2 inputs represent quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable.

Development Properties. Land, buildings and improvements are recorded at cost. Expenditures related to the development of real estate are carried at cost which includes capitalized carrying charges and development costs. Carrying charges, primarily interest, real estate taxes, loan fees, and direct and indirect development costs related to buildings under construction, are capitalized as part of construction in progress. The capitalization of such costs ceases when the property, or any completed portion, becomes available for occupancy. For the three months ended June 30, 2013, approximately $33,000 and $25,000 in interest expense and real estate taxes, respectively, were capitalized, and for the six months ended June 30, 2013, approximately $69,000 and $49,000 in interest expense and real estate taxes, respectively, were capitalized. For the three months ended June 30, 2012, approximately $44,000 and $31,000 in interest expense and real estate taxes, respectively, were capitalized, and for the six months ended June 30, 2012, approximately $88,000 and $63,000 in interest and real estate taxes, respectively, were capitalized.

Share-Based Compensation. From time to time, we award nonvested restricted common share awards or restricted common share unit awards, which may be converted into common shares, to executive officers and employees under our 2008 Long-Term Equity Incentive Ownership Plan (the "2008 Plan"). The vast majority of the awarded shares and units vest when certain performance conditions are met. We recognize compensation expense when achievement of the performance conditions is probable based on management's most recent estimates using the fair value of the shares as of the grant date. We recognized $311,000 and $188,000 in share-based compensation for the three months ended June 30, 2013 and 2012, respectively, and we recognized $667,000 and $266,000 in share-based compensation for the six months ended June 30, 2013 and 2012, respectively.

Noncontrolling Interests. Noncontrolling interests is the portion of equity in a subsidiary not attributable to a parent. The ownership interests not held by the parent are considered noncontrolling interests. Accordingly, we have reported noncontrolling interests in equity on the consolidated balance sheets but separate from Whitestone's equity. On the consolidated statements of operations, subsidiaries are reported at the consolidated amount, including both the amount attributable to Whitestone and noncontrolling interests. The consolidated statement of changes in equity is included for quarterly financial statements, including beginning balances, activity for the period and ending balances for shareholders' equity, noncontrolling interests and total equity.

See our Annual Report on Form 10-K for the year ended December 31, 2012 for further discussion on significant accounting policies.

Recent Accounting Pronouncements. In February 2013, the FASB issued guidance requiring entities to disclose certain information relating to amounts reclassified out of accumulated other comprehensive income. We do not expect the pronouncement to have a significant impact on our consolidated financial statements.

3. MARKETABLE SECURITIES

All of our marketable securities were classified as available-for-sale securities as of June 30, 2013 and December 31, 2012. Available-for-sale securities consisted of the following (in thousands):

	June 30, 2013				
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income		Estimated Fair Value
Real estate sector common stock	$1,106	$—	$(194	)	$912
Total available-for-sale securities	$1,106	$—	$(194	)	$912
	December 31, 2012				
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income		Estimated Fair Value
Real estate sector common stock	$1,811	$—	$(408	)	$1,403
Total available-for-sale securities	$1,811	$—	$(408	)	$1,403

During the three months ended June 30, 2013, available-for-sale securities were sold for total proceeds of $747,000. The gross realized gains and losses on these sales during the three months ended June 30, 2013 were $44,000 and $3,000, respectively. During the three and six months ended June 30, 2012, available-for-sale securities were sold for total proceeds of $1,312,000 and $3,926,000, respectively. The gross realized gains and losses on these sales during the three months ended June 30, 2012 were $34,000 and $3,000, respectively, and the gross realized gains and losses on the sales during the six months ended June 30, 2012 totaled $74,000 and $42,000, respectively.

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WHITESTONE REIT AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013
(Unaudited)

4. ACCRUED RENTS AND ACCOUNTS RECEIVABLE, NET

Accrued rents and accounts receivable, net consists of amounts accrued, billed and due from tenants, allowance for doubtful accounts and other receivables as follows (in thousands):

	June 30, 2013	December 31, 2012
Tenant receivables	$6,163	$3,536
Accrued rents and other recoveries	5,657	6,696
Allowance for doubtful accounts	(2,970)	(2,285)
Total	$8,850	$7,947

5. UNAMORTIZED LEASING COMMISSIONS AND LOAN COSTS

Costs which have been deferred consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Leasing commissions	$5,982	$5,530
Deferred financing cost	5,976	4,574
Total cost	11,958	10,104
Less: leasing commissions accumulated amortization	(3,281)	(2,899)
Less: deferred financing cost accumulated amortization	(3,598)	(3,045)
Total cost, net of accumulated amortization	$5,079	$4,160

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WHITESTONE REIT AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013
(Unaudited)

6. DEBT

Debt consisted of the following as of the dates indicated (in thousands):

Description	June 30, 2013	December 31, 2012
Fixed rate notes		
$1.1 million 4.71% Note, due 2013	$1,087	$1,087
$20.2 million 4.2805% Note, due 2023 (1)	20,200	13,850
$3.0 million 6.00% Note, due 2021 (2)	2,924	2,943
$10.0 million 6.04% Note, due 2014	9,047	9,142
$1.5 million 6.50% Note, due 2014	1,430	1,444
$11.2 million 6.52% Note, due 2015	10,528	10,609
$21.4 million 6.53% Notes, due 2013	18,530	18,865
$24.5 million 6.56% Note, due 2013	22,892	23,135
$9.9 million 6.63% Notes, due 2014	8,758	8,925
$9.2 million, Prime Rate less 2.00%, due 2017 (3)	7,868	7,854
$11.1 million 5.87% Note, due 2016	12,031	—
$0.9 million 2.97% Note, due 2013	387	15
Floating rate notes		
Unsecured credit facility, LIBOR plus 1.75% to 2.50%, due 2017 (4)	127,400	69,000
$26.9 million, LIBOR plus 2.86% Note, due 2013	23,319	23,739
	$266,401	$190,608

(1) Promissory note had an original balance of $14.1 million and an interest rate of 5.695%, due in 2013, which was refinanced in May 2013. See below for further discussion of Pinnacle Note.

(2) The 6.00% interest rate is fixed through March 30, 2016. On March 31, 2016 the interest rate will reset to the rate of interest for a five-year balloon note with a thirty-year amortization as published by the Federal Home Loan Bank.

(3) Promissory note includes an interest rate swap that fixed the interest rate at 5.72% for the duration of the term.

(4) We have entered into an interest rate swap that fixed the LIBOR portion of our $50 million term loan under the Facility at 0.84%. The swap will begin on January 7, 2014 and will mature on February 3, 2017.

On June 19, 2013, we assumed a $11.1 million promissory note as part of our acquisition of Mercado at Scottsdale Ranch (See Note 14). The 5.87% fixed interest rate note matures on August 6, 2016. In conjunction with our acquisition, we received an interest rate supplement from the seller in the amount of $932,000, which we will accrete into expense over the life of the note. As a result of the supplement, the imputed interest rate is 3.052%, which we consider to be an appropriate market rate.

On May 31, 2013, we, operating through our subsidiary, Whitestone Pinnacle of Scottsdale, LLC, a Delaware limited liability company ("Whitestone Pinnacle"), refinanced our $14.1 million promissory note, with an applicable interest rate of 5.695% and a maturity of June 1, 2013, with a $20.2 million promissory note (the "Pinnacle Note") payable to Cantor Commercial Real Estate Lending, L.P. with an applicable interest rate of 4.2805%, and a maturity of July 6, 2023.

The Pinnacle Note is a non-recourse loan secured by Whitestone Pinnacle's Pinnacle of Scottsdale property, located in Scottsdale, Arizona, and a limited guarantee by Whitestone. In conjunction with the Pinnacle Note, a deed of trust was executed by Whitestone Pinnacle that contains customary terms and conditions, including representations, warranties and covenants by Whitestone Pinnacle that include, without limitation, assignment of rents, warranty of title, insurance requirements and maintenance, use and management of the properties.

As of June 30, 2013, our $138.6 million in secured debt was collateralized by 28 properties with a carrying value of $181.2 million. Our loans contain restrictions that would require prepayment penalties for the acceleration of outstanding debt and are secured by deeds of trust on certain of our properties and by assignment of the rents and leases associated with those properties. As of June 30, 2013, we were in compliance with all loan covenants.

On February 4, 2013, we, through our Operating Partnership, entered into an unsecured credit facility (the “Facility”) with the lenders party thereto, with BMO Capital Markets and Wells Fargo Securities, LLC, as co-lead arrangers and joint book runners, Bank of Montreal, as administrative agent (the "Agent"), Wells Fargo Bank, National Association, as syndication agent, and U.S. Bank National Association, as documentation agent. The Facility amended and restated our previous unsecured credit facility. We plan to use the Facility for acquisitions, redevelopment of value-add properties in our portfolio, and general corporate purposes.

In addition to a $125 million unsecured borrowing capacity under the revolving loan, the Facility also includes a $50 million term loan and permits the Operating Partnership to increase the borrowing capacity under the Facility to a total of $225 million, upon the satisfaction of certain conditions. The Facility will mature on February 3, 2017, and provides that the Operating Partnership may extend the maturity date for one year subject to certain conditions, including the payment of an extension fee.

Borrowings under the Facility accrue interest (at the Operating Partnership's option) at a Base Rate or an Adjusted LIBOR plus an applicable margin based upon our then existing leverage. Base Rate means the higher of: (a) the Agent's prime commercial rate, (b) the sum of (i) average rate quoted the Agent by two or more federal funds brokers selected by the Agent for sale to the Agent at face value of federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 0.5%, and (c) the LIBOR rate for such day plus 1.00%. Adjusted LIBOR means LIBOR divided by one minus the Eurodollar Reserve Percentage. The Eurodollar Reserve Percentage means the maximum reserve percentage at which reserves are imposed by the Board of Governors of the Federal Reserve System on eurocurrency liabilities.

We are the guarantor for funds borrowed by the Operating Partnership under the Facility. The Facility contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, maximum secured indebtedness to total asset value, minimum EBITDA (earnings before interest, taxes, depreciation, amortization and extraordinary items) to fixed charges and maintenance of net worth. The Facility also contains customary events of default with customary notice and cure, including, without limitation, nonpayment, breach of covenant, misrepresentation of representations and warranties in a material respect, cross-default to other major indebtedness, change of control, bankruptcy and loss of REIT tax status. As of June 30, 2013, we were in compliance with all covenants.

As of June 30, 2013, $127.4 million was drawn on the Facility, and our remaining borrowing capacity was $47.6 million. Proceeds from the Facility were used for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and retenanting of properties in our portfolio and working capital.

Scheduled maturities of our outstanding debt as of June 30, 2013 were as follows (in thousands):

Year	Amount Due

2013	$66,708
2014	19,453
2015	10,786
2016	11,725
2017	135,689
Thereafter	22,040
Total	$266,401

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(Unaudited)

Of our $67 million in debt maturing in 2013, we will have approximately $64 million maturing in October and November 2013. The majority of this debt is with insurance companies and was entered into in late 2008. We have begun renewal discussions with our current lenders and expect to renew this debt with our current lenders or new lenders at rates and terms similar or better than our current rates and terms. We also have availability under our Facility should we be unable to obtain similar or better financing from our current lenders or new lenders.

7. EARNINGS PER SHARE

Basic earnings per share for our common shareholders is calculated by dividing income from continuing operations excluding amounts attributable to unvested restricted shares and the net income attributable to noncontrolling interests by our weighted average common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income attributable to common shareholders excluding amounts attributable to unvested restricted shares and the net income attributable to noncontrolling interests by the weighted average number of common shares including any dilutive unvested restricted shares.

Certain of our performance-based restricted common shares are considered participating securities that require the use of the two-class method for the computation of basic and diluted earnings per share. During the three months ended June 30, 2013 and 2012, 585,621 and 882,051 OP units, respectively, were excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive, and during the six months ended June 30, 2013 and 2012, 618,904 and 937,066 OP units, respectively, were excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive.

For the three months ended June 30, 2013 and 2012, distributions of $45,000 and $50,000, respectively, were made to holders of certain restricted common shares, $34,000 and $48,000, respectively, of which were charged against earnings. For the six months ended June 30, 2013 and 2012, distributions of $90,000 and $103,000, respectively, were made to holders of certain restricted common shares, $68,000 and $97,000, respectively, of which were charged against earnings. See Note 11 for information related to restricted common shares under the 2008 Plan.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(in thousands, except per share data)	2013	2012	2013	2012
Numerator:				
Net income	$1,003			